

<p align="center">2003 - 2004 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund

This fund accounts for the construction of improvements and the purchase of equipment for the Water Pollution Control Plant.

***San José/Santa Clara
Treatment Plant
Capital Fund***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 31,519	\$ 22,900	\$ (8,619)	(27.3%)
<i>Expenditure</i>	101,176	58,637	\$ 42,539	42.0%
<i>Fund Balance (est. *)</i>	112,984 *	107,723	\$ (5,261)	(4.7%)

The negative revenue variance of \$8.6 million primarily reflects budgeted contributions for the Silver Creek portion of the South Bay Water Recycling System that were not received in 2003-2004 (\$6.5 million). The reimbursement process has been initiated and payment is anticipated to be received in 2004-2005. In addition, lower than budgeted contributions from tributary agencies (\$2.5 million variance) resulted from project delays and the continuation of projects into 2004-2005. These contributions are reimbursements of the tributary agencies portion of actual project expenses. Finally, Proposition 13 grant revenues (\$2.3 million) were not received, but are expected to be received in 2004-2005. These revenue shortfalls were only partially offset by higher than budgeted interest collections (\$1.4 million variance), miscellaneous revenues (\$1.1 million), and higher than anticipated United States Bureau of Reclamation grant revenues (\$187,000).

Unexpended project funds resulted in a \$42.5 million positive variance in budgeted program expenditures. Most of these savings (\$40.7 million) were rebudgeted in the Adopted Capital Budget for 2004-2005. The following is a list of projects that had an unexpended balance exceeding \$500,000:

	<u>(\$000's)</u>
Revised SBAP - SBWR Extension	\$ 29,288
Land Acquisition and Improvements	4,919
Revised SBAP - I/I Reduction	2,584
Salt Marsh Restoration	2,401
Alternative Disinfection Study	500
Lab Information Management System	<u>500</u>
Total	\$ 40,192

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CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund (Cont'd.)

The following is an explanation of project variances:

- Revised South Bay Action Plan (SBAP) – South Bay Water Recycling (SBWR) Extension – Savings in this appropriation resulted from the continuation of recycled water projects into 2004-2005. The Coleman Avenue connection is currently in the design stage and the Santa Clara Central Park recycled water extension is expected to extend beyond 2004-2005. A rebudget of \$29.9 million was included in the 2004-2005 Adopted Capital Budget. This project did not achieve sufficient savings to cover the original rebudget amount programmed in the 2004-2005 Adopted Capital Budget. As a result, a budget reduction (\$587,000) is recommended in this document.
- Land Acquisition and Improvements – Savings of \$4.9 million occurred because these funds were not needed in 2003-2004. The majority of these savings (\$4.7 million) was reprogrammed in the 2004-2005 Adopted Capital Budget. The remainder of the savings will be available for future projects.
- Revised SBAP – Inflow/Infiltration Reduction – Water conservation efforts combined with drier weather conditions have resulted in lower plant flows and fewer projects being submitted for this program, which aims to reduce the groundwater and surface runoff entering the sewer system.
- Salt Marsh Restoration – Continuing negotiations to address outstanding mitigation issues and the permit approval process continue into 2004-2005. Funding of \$2.4 million was rebudgeted as part of the 2004-2005 Adopted Capital Budget.
- Alternative Disinfection Study – This study is underway and will be completed in 2004-2005.
- Lab Information Management System – Savings in this project resulted from the continuation of this project into 2004-2005. Funding of \$500,000 was rebudgeted as part of the 2004-2005 Adopted Capital Budget.

The remaining \$2.3 million variance involves a number of projects with savings of less than \$500,000.

One additional project did not achieve sufficient savings to cover the amount programmed in the 2004-2005 Adopted Capital Budget. Therefore, a total budget reduction is included in this document for the Plant Infrastructure Improvements allocation (\$189,000). In addition, the

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Budget Office and CIP Action Team allocations in this fund were over-expended at year-end and require ratification due to the redistribution of these costs during the year-end close process. The reallocation of these costs was required to more accurately distribute costs. On an overall basis, the expenditures of these two units were actually under budget.

The San José/Santa Clara Treatment Plant Capital Fund ended the year below the estimated fund balance (\$5.3 million variance) primarily due to lower than estimated levels of revenues (\$7.9 million), the majority of which are anticipated to be received in 2004-2005, and lower than estimated expenditures (\$2.6 million) discussed above. A portion (\$776,000) of this variance will be offset by downward adjustments recommended in this document to projects that did not meet sufficient savings to cover original rebudget amounts included as part of the 2004-2005 Adopted Capital Budget as discussed above.